

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01
AF-08 ARA-06 NEA-10 OIC-02 XMB-02 /134 W
-----171940Z 087469 /47

R 171756Z MAR 77

FM USMISSION GENEVA
TO SECSTATE WASHDC 6022
INFO AMEMBASSY BRUSSELS
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY OTTAWA
AMEMBASSY PARIS
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E.O. 11652: N/A

TAGS: ETRD, GATT

SUBJECT: GATT WP ON EXPORT INFLATION INSURANCE MARCH 14-15

REF: STATE 52741 (NOTAL)

1. SUMMARY: FIRST SUBSTANTIVE MEETING OF WP WENT BETTER THAN
ANTICIPATED, IN THAT WE GOT PAST PROCEDURAL ROADBLOCKS AND
WERE ABLE EXPLORE EXPORT INFLATION INSURANCE SCHEMES (EII)
THOROUGHLY. FRENCH SCHEME CLEARLY TOOK THE WORST OF THE HEAT.
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EII REMAINS ONLY ITEM EXPLICITLY ON AGENDA, ALTHOUGH EC MAY
STILL PRESS FOR OTHER ITEMS AT NEXT MEETING. WP TO RESUME
LATE MAY OR EARLY JUNE. END SUMMARY.

2. MARCH 14-15 SESSION GATT WORKING PARTY ON EXPORT
INFLATION INSURANCE SAW MAJOR INVESTIGATION OF NATIONAL
SCHEMES WITHOUT PROCEDURAL ROADBLOCK OVER OTHER MEASURES

WHICH MIGHT BE DISCUSSED WITHIN THE WP'S FAIRLY BROAD TERMS OF REFERENCE. AFTER DISCUSSION OF PORTUGUESE SCHEME (SEE BELOW), WP WORK ORDER BROUGHT US UPON EC NOTIFICATION OF JAPANESE EXPORT LOSS RESERVE PROGRAM. JAPAN, ACTIVELY SUPPORTED BY U.S., ARGUED STRONGLY THAT PROGRAM DID NOT FALL WITHIN TERMS OF REFERENCE. U.S. OBJECTED TO EC PROCEDURE OF ALLEGING JAPANESE SCHEME CREATED "DISTORTION" AND WAS A TRADE "ASSIST" WITHOUT TELLING WP HOW EC CONCERN RELATED TO TERMS OF REFERENCE, I.E., MEASURES USED TO ATTENUATE FOR COST INFLATION. CHAIRMAN (SELMER) THEN POSTPONED THIS PART OF DISCUSSION AND LATER SUGGESTED EC AND JAPAN CONSULT BILATERALLY BEFORE NEXT WP MEETING. BOTH PARTIES AGREED, BUT EC CAUTIONED THAT SOME MEMBER STATES WOULD HAVE TO BE CONVINCED TO CHANGE THEIR STANCE. JAPANESE HAVE SINCE INDICATED MEETING WITH EC MAY BE SEVERAL WEEKS DISTANT BUT PROMISE KEEP US INFORMED.

3. THIS PROCEDURAL IMPASSE AND RESULTANT POSTPONEMENT OF DISCUSSION BY CHAIRMAN ENABLED US TO MOVE RIGHT INTO DETAILED DISCUSSION OF THE EII SCHEMES. (NOTE: WE VERY MUCH APPRECIATE ADVANCE INSTRUCTIONS IN STATE 45429. WE WERE ABLE TO COORDINATE WITH JAPANESE WELL IN ADVANCE AND BELIEVE THAT OUR PROMISE OF FIRM SUPPORT STIFFENED THEIR RESOLVE. JAPANESE HAVE TWICE THANKED US FOR SUPPORT.)

4. PORTUGAL: U.S. ASKED GENERAL QUESTIONS IN PARA 7 REFTEL. PORTUGUESE RESPONDED THAT THEY DID NOT YET HAVE ENOUGH EXPERIENCE WITH THE PROGRAM TO ANSWER QUESTIONS LIMITED OFFICIAL USE

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TIONS IN DETAIL. THEY SAID SO FAR ONLY TWO PAYMENTS TO EXPORTERS HAD BEEN MADE. PORTUGAL EXPECTS PREMIUMS TO COVER LOSSES, AND DOES NOT EXPECT DUAL PRICING TO RESULT. THE EC ATTEMPTED TO LINK ALL TO EXCHANGE RISK INSURANCE BY POINTING OUT THAT BOTH PROGRAMS WERE ESTABLISHED IN PORTUGAL BY THE SAME LAW. PORTUGUESE RESPONDED THAT THE TWO PROGRAMS WERE ENTIRELY SEPARATE IN CONCEPT AND OPERATION AND THAT FACT THAT THEY WERE ESTABLISHED BY SAME LAW WAS ENTIRELY COINCIDENTAL. THIS WAS ONLY TIME IN THIS SESSION OF WP WHERE EC ATTEMPTED TO RAISE EXCHANGE RISK INSURANCE, ALTHOUGH UK AND FRANCE ARE STILL PRESSING EC TO RAISE SUBJECT LATER.

5. FINLAND: IN RESPONSE TO THE GENERAL AND SPECIFIC QUESTIONS FROM REFTEL, FINNS DESCRIBED THEIR PROGRAM AS COVERING LESS THAN 10 PERCENT OF EXPORTS AND AS OFFERING PARTIAL PROTECTION AGAINST CATASTROPHIC LOSSES. S RATES OF INFLATION OF 10 PERCENT OR LESS, PROGRAM'S DEFICIT SHOULD

BE ZERO OR NEGLIGIBLE. THRESHOLD TAKES INTO ACCOUNT EC INFLATION RATES. FINNS EMPHASIZED THAT THEIR PROGRAM IS DIRECTED TOWARD SPECIAL PROBLEMS CREATED BY TRADE WITH THE EAST.

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6. FRANCE: IN RESPONSE TO THE GENERAL AND SPECIFIC QUESTIONS FROM REFTEL, THE FRENCH ADMITTED THAT BUDGETARY APPROPRIATIONS MORE THAN DOUBLED FROM 1974 TO 1976 AND WOULD BE NO LESS IN 1977 THAN 1976. THERE WAS NO SHIFTING OF FUNDS BETWEEN THIS AND ANY OTHER PROGRAM. THEY WERE UNWILLING TO SPECIFY THE AGGREGATE AMOUNTS OF PREMIUMS COLLECTED AND CLAIMS PAID, DESPITE REPEATED PRODDING FROM US, PLEADING BUSINESS CONFIDENTIALITY. FRANCE SAID THE PROGRAM HAD BEEN SELF-FINANCING OVER ITS FIRST 10 YEARS, BUT IN RECENT YEARS PANDEMIC WORLD-LIMITED OFFICIAL USE

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WIDE INFLATIONARY AND MONETARY PROBLEMS HAD UNBALANCED THE PROGRAM. FRENCH DEL REVEALED THAT PROGRAM HAD BECOME "VERY EXPENSIVE" AND THAT THE GOF WAS NOW EXAMINING WAYS TO REDUCE THE BUDGETARY COST. SAID THERE WAS NO NEED TO RAISE PREMIUMS, HOWEVER, WHICH WERE ALREADY AS HIGH AS THOSE IN OTHER COUNTRIES. DOING SO, THEY AFFIRMED, WOULD DISCOURAGE USE OF THE SYSTEM BY EXPORTERS. FRENCH AGREED TO COMMENT UPON ARITHMETIC EXAMPLE FROM PARA 9 OF REFTEL AT NEXT MEETING. WE SAID FRENCH ADMISSIONS RE LARGE DEFICITS INCURRED BY SCHEME AND REASONS FOR NOT RAISING PREMIUMS TO COVER COSTS WERE BOTH ALARMING AND WORTHY OF CAREFUL NOTE BY WP. (COMMENT: FRENCH WERE REPRESENTED BY AN ADMINISTRATOR OF THEIR SCHEME RATHER THAN A GATT SPECIALIST; THIS MAY BE WHY THEIR STATEMENTS WERE SO SELF-INCRIMINATING FROM A GATT PERSPECTIVE. CANADIANS, WHO SAT DIRECTLY BEHIND THEM, LATER TOLD US THAT GENEVA MEMBER OF FRENCH DEL OFTEN TRIED TO CURB THEIR PRESENTATION, TO LITTLE SUCCESS.)

7. ITALY: U.S. ASKED APPROPRIATE QUESTIONS CONTAINED REFTEL, AND CANADIANS SECONDED U.S. QUESTIONS RE POSSIBILITY OF REPEAL OF EII. ITALY SAID THAT IN LIGHT OF CURRENT BUDGETARY RESTRAINTS, THE NEED TO KEEP WAGE RATES STABLE AND INFLATION UNDER CONTROL, AND THE CONDITIONS IMPOSED BY IMF, THEY COULD NOT ENVISAGE RE-ESTABLISHING THEIR EII SCHEME IN FORESEEABLE FUTURE. ITALY SAID GOI LOOKS FORWARD TO OBTAINING CONCLUSIONS OF WP AND OECD EXAMINATION OF EII IN ORDER TO GUIDE FUTURE ITALIAN POLICY RE EII. ITALY SAID THAT IN VIEW OF THE SERIOUS INFLATION NOW BEING EXPERIENCED, RE-ACTIVATION OF SCHEME WOULD BE A HEAVY BURDEN. U.S. WELCOMED ITALIAN STATEMENTS AND SAID THEY PROVIDED KEY GUIDANCE FOR THE WP.

8. UK SCHEME: UK ARGUED THAT:

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A) THEIR SCHEME DOES NOT INSURE AGAINST GENERAL INFLATION INCREASES, BUT RATHER AGAINST COST INCREASES. THEY ASSERTED THAT 7 PERCENT COST THRESHOLD IS NOT REACHED IN PRACTICE UNLESS INFLATION IS IN THE 12-15 PERCENT RANGE.

B) THEY EXPECT THEIR SCHEME TO BE SELF-FINANCING.

C) VIOLATION OF ART XVI:4 WOULD OCCUR ONLY IF
LOSSES (I.E., CLAIMS MINUS PREMIUMS COLLECTED) ARE PER-
SISTENT AND DUE TO THE STRUCTURE OF THE PROGRAM ITSELF.

D) THEIR PROGRAM WAS PUT INTO EFFECT ONLY TO COUN-
TERACT TRADE DISTORTION, SUCH AS DISC, ALREADY EXIST-
ING DUE TO THE POLICIES OF OTHER GOVERNMENTS. IT IS,
THEREFORE, ANTI-TRADE DISTORTIVE.

E) BOTH COST INFLATION PROGRAMS IN WEAK CURRENCY
COUNTRIES AND EXCHANGE RISK PROGRAMS IN STRONG COUN-
TRIES ARE MADE NECESSARY BY THE SAME ECONOMIC/FINANCIAL
PROBLEMS.

F) (UK AGREED TO COMMENT UPON ARITHMETIC EXAMPLE
FROM PARA 9 OF REFTEL AT NEXT MEETING.)

9. U.S. MADE BID TO FORECLOSE SUBMISSION OF NEW AGENDA
ITEMS. EC SAID THEY EXPECTED TO BE IN POSITION TO SUB-
MIT THE LAST ADDITIONAL ITEMS BEFORE NEXT SESSION OF WP,
ALTHOUGH THEY COULDN'T COMMIT THEMSELVES. EXCHANGE-RATE
INSURANCE MIGHT STILL BE ARGUED BY EC COUNTRIES FOR
INCLUSION. THUS, THIS ISSUE NOT FINALLY LAID TO REST.

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10. CANADA WAS THE ONLY OTHER COUNTRY TO ASK DETAILED QUESTIONS. CANADIAN REP ALSO MADE PRELIMINARY STATEMENT REASSERTING CANADIAN POSITION THAT EII WAS ILLEGAL UNDER ART XVI AND SPECIFICALLY RESERVING CANADIAN OPTION TO TAKE APPROPRIATE MEASURES TO PROTECT ITS EXPORTERS AGAINST THE EFFECTS OF EII PROGRAMS SHOULD THEY NOT BE ELIMINATED SOON. SWEDEN RESTATED AT END OF SESSION ITS BELIEF AII WAS IN VIOLATION OF ART XVI AND EXPRESSED CONCERN OVER THE POSSIBILITY OF PROLIFERATION OF EII IF CURRENT PROGRAMS NOT PHASED OUT. U.S. REAFFIRMED OUR OPPOSITION
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TO EII SCHEMES AND URGED THAT THEY BE TERMINATED.

11. COMMENT: WE WERE PLEASED AND SURPRISED AT THE AMOUNT OF SUBSTANTIVE DEBATE ON EII SCHEMES THAT WE WERE ABLE TO PURSUE IN THIS SESSION OF THE WP. ATTEMPT TO USE DISCUSSION OF JAPANESE TAX LOSS PROGRAM TO DEFLECT WP FROM EII WAS LARGELY UNSUCCESSFUL DUE TO CHAIRMAN'S INSISTENCE THAT THIS PROCEDURAL ISSUE NOT BLOCK SUBSTANTIVE DEBATE AND ALSO TO VIRTUALLY IMPENETRABLE "EXPLANATION" OF PROGRAM BY JAPANESE REP. EC COULD FIND NO CONVENIENT OPPORTUNITY TO RAISE EXCHANGE RISK INSURANCE IN ADVANCE OF EII DISCUSSIONS, ONCE PORTUGUESE (TO EC'S APPARENT SURPRISE) STATED THEIR EXCHANGE-RATE AND EII PROGRAMS WERE ENTIRELY SEPARATE.

12. NORWEGIANS AND SWEDES, DESPITE PRIOR COACHING BY US, DID NOT JOIN IN THE DETAILED QUESTIONING. THEY LATER SAID THIS WAS BECAUSE (A) THEIR BASIC OPPOSITION TO EII HAD ALREADY BEEN PLACED ON THE RECORD AT PREVIOUS SESSION, (B) THEY HAD AGREED NOT TO EMBARRASS THEIR NORDIC NEIGHBOR, FINLAND, AND (C) BECAUSE THEY HAD NOT COME PREPARED WITH DETAILED QUESTIONS, IN THE EXPECTATION THAT EC COUNTRIES WOULD SUCCESSFULLY DELAY EII DISCUSSION. THEY WERE SURPRISED, BUT PLEASED, TO SEE THE LATTER DID NOT HAPPEN.

13. DEPARTMENT MAY WISH REPEAT REFTEL TO OTTAWA, STOCKHOLM, HELSINKI, AND LISBON FOR INFO.

14. NEXT SESSION OF WP TENTATIVELY SLATED FOR LATE

MAY-EARLY JUNE. WE MAY BE ABLE FINISH EXPLORATION OF
EII PART OF WP THEN AND THUS SHOULD BE PREPARED FOCUS
CLOSELY ON GATT LEGALITY. SORENSON

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Message Attributes

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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Executive Order: GS
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SAS ID: 3082576
Secure: OPEN
Status: NATIVE
Subject: GATT WP ON EXPORT INFLATION INSURANCE MARCH 14-15
TAGS: ETRD, GATT
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vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/9aad09b7-c288-dd11-92da-001cc4696bcc
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